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WASHINGTON, D.C. 20549
FORM 10-Q

O 92-22770

(Mark One)

__X__ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 1992

OR

_____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 34-16533

SOVEREIGN BANCORP, INC.
(Exact name of Registrant as specified in its charter)

Pennsylvania	23-2453088
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1130 Berkshire Boulevard, Wyomissing, Pennsylvania	19610
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (215) 320-8400

N/A
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes __X__. No _____.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 11, 1992
Common Stock (no par value)	10,813,627 shares

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 1992	December 31, 1991
	(in thousands, except per share data)	
ASSETS		
Cash and amounts due from depository institutions	$20,708	$23,730
Interest-earning deposits	21,587	24,017
Loans and mortgage-backed securities held for resale (approximate market value of $11,487 and $32,252 at June 30, 1992 and December 31, 1991, respectively)	11,321	32,049
Investment securities (approximate market value of $58,404 and $47,893 at June 30, 1992 and December 31, 1991, respectively) (note 3)	58,138	47,410
Mortgage-backed securities (approximate market value of $472,326 and $483,673 at June 30, 1992 and December 31, 1991, respectively) (note 4)	465,106	477,085
Loans (note 5)	1,244,375	1,030,400
Allowance for possible loan losses	(11,924)	(9,532)
Premises and equipment	13,497	11,614
Real estate owned	4,362	3,909
Accrued interest receivable	12,395	11,290
Goodwill and other intangible assets	6,569	7,067
Other assets	6,525	2,740
TOTAL ASSETS	$1,852,669	$1,661,779
LIABILITIES		
Deposits (note 6)	$1,230,713	$1,261,239
Borrowings (note 7)		
Short-term	441,596	271,000
Long-term	47,649	8,259
Advance payments by borrowers for taxes and insurance	11,057	6,172
Official checks	5,508	8,311
Other liabilities	20,014	16,688
TOTAL LIABILITIES	1,756,537	1,571,669
STOCKHOLDERS' EQUITY		
Preferred stock; 7,500,000 shares authorized; none outstanding	-	-
Common stock; no par value; 29,296,875 shares authorized; 10,840,847 shares issued at June 30, 1992 and 10,841,242 shares issued at December 31, 1991	79,027	58,470
Retained earnings, substantially restricted	17,269	31,890
Treasury stock at cost; 30,806 shares at June 30, 1992 and 51,757 shares at December 31, 1991	(164)	(250)
TOTAL STOCKHOLDERS' EQUITY	96,132	90,110
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,852,669	$1,661,779

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	1992	1991	1992	1991
	(in thousands, except per share data)			
Interest income:				
Interest and dividends on investment securities and other interest-earning assets	$1,569	$1,863	$3,019	$3,720
Interest on mortgage-backed securities	9,725	6,282	19,624	13,445
Interest and fees on loans	24,588	22,690	47,902	45,543
Total interest income	35,882	30,834	70,545	62,708
Interest expense:				
Interest on deposits	15,798	16,854	32,409	33,220
Interest on borrowings	5,472	4,863	10,129	11,510
Total interest expense	21,270	21,717	42,538	44,730
Net interest income	14,612	9,117	28,007	17,978
Provision for possible loan losses	2,500	1,830	4,660	3,762
Net interest income after provision for possible loan losses	12,112	7,287	23,347	14,216
Other income:				
Other loan fees and service charges	463	381	923	708
Deposit fees	396	231	801	498
Gain on sale of loans, mortgage-backed securities and investment securities	97	2	273	134
Gain on sale of loans and mortgage-backed securities held for resale	540	87	1,096	272
Miscellaneous income	145	138	434	337
Total other income	1,641	839	3,529	1,949
General administrative expenses:				
Salaries and employee benefits	3,156	2,091	6,130	4,116
Occupancy and equipment expenses	1,249	832	2,520	1,728
Outside services	714	354	1,448	725
Deposit insurance premiums	781	528	1,502	1,055
Advertising	331	197	637	391
Other administrative expenses	665	469	1,689	1,101
Total general administrative expenses	6,886	4,491	13,926	9,116
Other operating expenses:				
Amortization of goodwill and other intangibles	249	83	498	166
Real estate owned (gains) losses, net	64	(5)	186	(21)
Total other operating expenses	313	78	684	145
Income before income taxes	6,554	3,557	12,466	6,904
Income tax provision	3,194	1,819	5,900	3,574
Net income	$3,360	$1,738	$6,566	$3,330
Earnings per share:				
Primary	$.27	$.20	$.54	$.39
Fully diluted	$.27	$.20	$.54	$.38

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six-Month Period Ended June 30,	
	1992	1991
	(in thousands)	
Cash Flows from Operating Activities:		
Net Income	$6,566	$3,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible loan losses and deferred taxes	4,188	3,917
Depreciation	597	489
Amortization	(1,545)	(1,250)
Gain on sale of loans, investment and mortgage-backed securities and real estate owned	(89)	(427)
Net change in:		
Loans and mortgage-backed securities held for resale	20,633	(2,893)
Official checks and other liabilities	(341)	1,504
Accrued interest receivable and other assets	(4,619)	(152)
Net cash provided by operating activities	25,390	4,518
Cash Flows from Investing Activities:		
Proceeds from sales of investment and mortgage-backed securities	98,934	12,015
Proceeds from repayments and maturities of investment and mortgage-backed securities	72,571	24,147
Purchases of investment and mortgage-backed securities	(170,211)	(65,618)
Purchase of loans	(810)	(797)
Net change in loans other than purchases and sales	(214,260)	21,420
Purchases of premises and equipment	(2,504)	(216)
Proceeds from sale of real estate owned	1,385	704
Net cash used by investing activities	(214,895)	(8,345)

(Continued)

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, (Continued)
(Unaudited)

	Six-Month Period Ended June 30,	
	1992	1991
	(in thousands)	
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	(30,263)	41,247
Net increase (decrease) in short-term borrowings	170,596	(15,078)
Proceeds from long-term borrowings	40,165	-
Repayments of long-term borrowings	(775)	(774)
Net increase in advance payments by borrowers for taxes and insurance	4,885	2,067
Proceeds from issuance of common stock	177	24
Cash dividends paid	(808)	(234)
Sale (purchase) of treasury stock	86	(91)
Net cash provided by financing activities	184,063	27,161
Net change in cash and cash equivalents	(5,442)	23,334
Cash and cash equivalents at beginning of period	47,747	52,545
Cash and cash equivalents at end of period	$42,305	$75,879
Reconciliation of Cash and Cash Equivalents to Consolidated Balance Sheets:		
Cash and amounts due from depository institutions	$20,708	$13,794
Interest-earning deposits	21,597	62,085
	$42,305	$75,879

Supplemental Disclosures:

Income tax payments totaled $6.2 million for the six-month period ended June 30, 1992 and $4.2 million for the same period in 1991. Interest payments totaled $39.2 million for the six-month period ended June 30, 1992 and $43.9 million for the same period in 1991. Noncash activity consisted of mortgage loan securitization of $109.0 million for the six-month period ended June 30, 1992 and $55.8 million for the same period in 1991; reclassification of mortgage loans to real estate owned of $1.8 million for the six-month period ended June 30, 1992 and $2.4 million for the same period in 1991; and stock dividends of $20.4 million for the six-month period ended June 30, 1992.

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) GENERAL

The accompanying financial statements of Sovereign Bancorp, Inc. and Subsidiaries ("Sovereign") include the accounts of the parent company, Sovereign Bancorp, Inc. and its subsidiaries, Sovereign Bank, F.S.B. ("Sovereign Bank") and Sovereign Investment Company. Sovereign Bank also owns New Home Financial Services, Inc., First Lancaster Financial Corp., YSL Service Corporation and PSB Investment Company. All material intercompany balances and transactions have been eliminated in consolidation. These financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include certain information or footnotes necessary for the presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, in the opinion of management, the consolidated financial statements reflect all adjustments (which consist of normal recurring accruals) necessary for a fair presentation of the results for the unaudited periods. The results of operations for the three-month and six-month periods ended June 30, 1992 are not necessarily indicative of the results which may be expected for the entire year. The consolidated financial statements should be read in conjunction with the annual report on form 10-K for the year ended December 31, 1991.

(2) EARNINGS PER SHARE

Primary and fully diluted earnings per share have been computed based on the weighted average number of common and common equivalent shares (dilutive stock options) outstanding during the periods. Fully diluted shares for the three-month periods ended June 30, 1992 and 1991 were 12.3 million and 8.8 million, respectively. Fully diluted shares for the six-month periods ended June 30, 1992 and 1991 were 12.3 million and 8.8 million, respectively. Earnings per share for have been adjusted to reflect all stock dividends and stock splits including the 10% stock dividend declared on July 21, 1992.

(3) INVESTMENT SECURITIES

The following table presents the composition and market value of investment securities at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Carrying Value	Market Value	Carrying Value	Market Value
U.S. Treasury and U.S. government agency securities	$28,401	$28,431	$ 8,410	$ 8,486
Corporate securities	10,123	10,347	20,447	20,733
Other securities	19,614	19,626	18,553	18,674
Total investment securities	$58,138	$58,404	$47,410	$47,893

(4) MORTGAGE-BACKED SECURITIES

The following table presents the composition and market value of mortgage-backed securities by issuer and by fixed and adjustable rates at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Carrying Value	Market Value	Carrying Value	Market Value
FHLMC	$125,175	$129,678	$138,795	$144,233
FNMA	138,140	140,277	78,617	79,601
Other	201,791	202,371	259,673	259,839
Total	$465,106	$472,326	$477,085	$483,673
Fixed	$264,482	$270,439	$143,230	$148,518
Adjustable	200,624	201,887	333,855	335,155
Total	$465,106	$472,326	$477,085	$483,673

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

(5) COMPOSITION OF LOAN PORTFOLIO

The following table presents the composition of the loan portfolio by type of loan and by fixed and adjustable rates at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Amount	Percent	Amount	Percent
Residential real estate loans	$1,011,223	81.26%	$ 789,030	76.58%
Real estate construction loans:				
Residential (net of loans in process of $14,382 and $10,194, respectively)	15,419	1.24	14,725	1.43
Residential development (net of loans in process of $1,457 and $1,802, respectively)	1,999	.16	2,522	.24
Home equity lines of credit	176,719	14.20	178,825	17.35
Total residential loans	1,205,360	96.86	985,102	95.60
Commercial real estate loans	24,721	1.99	27,122	2.63
Commercial loans	5,247	.42	7,878	.77
Consumer loans	9,047	.73	10,298	1.00
Total loans	$1,244,375	100.00%	$1,030,400	100.00%
Total Loans with:				
Fixed rates	$ 169,177	13.60%	$ 171,228	16.62%
Adjustable rates	1,075,198	86.40	859,172	83.38
Total Loans	$1,244,375	100.00%	$1,030,400	100.00%

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

(6) DEPOSIT PORTFOLIO COMPOSITION

The following table presents the composition of deposits at the dates indicated: (dollars in thousands)

	June 30, 1992			December 31, 1991		
Account Type	Amount	Percent	Weighted Average Rate	Amount	Percent	Weighted Average Rate
Retail certificates	$ 705,916	57.36%	5.96%	$ 744,260	59.01%	6.71%
Jumbo certificates	98,676	8.02	5.11	104,406	8.28	6.51
Regular savings	201,847	16.40	3.42	186,063	14.75	4.13
Demand deposit accounts	13,056	1.06	-	14,211	1.13	-
NOW accounts	81,399	6.61	2.92	73,205	5.80	3.46
MMDA accounts	129,819	10.55	3.60	139,094	11.03	4.17
Total Deposits	$1,230,713	100.00%	4.96%	$1,261,239	100.00%	5.77%

(7) BORROWINGS

The following table presents information regarding borrowings at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Securities sold under repurchase agreements	$132,048	3.52%	$ -	- %
FHLB advances	349,713	4.59	271,000	5.36
Other borrowings	7,484	10.99	8,259	11.02
Total borrowings	$489,245	4.40%	$279,259	5.53%

(8) SUBSEQUENT EVENT

On July 21, 1992, Sovereign declared a 10% stock dividend. The ex-dividend date was July 29, 1992 and the additional shares will be distributed on August 14, 1992 to stockholders of record on August 4, 1992. All per share amounts have been adjusted to reflect this dividend.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

General

Net income for the three-month period ended June 30, 1992 was $3.4 million, an increase of 93% over net income of $1.7 million for the three-month period ended June 30, 1991. Fully diluted earnings per share for the three-month period ended June 30, 1992 increased 35% to $.27 compared to $.20 for the same period in 1991. Net income for the six-month period ended June 30, 1992 was $6.6 million or $.54 per fully diluted share compared to $3.3 million or $.38 per fully diluted share for the same period in 1991. Earnings per share have been adjusted to reflect all stock dividends and stock splits including the 10% stock dividend declared on July 21, 1992.

Return on average equity and return on average assets were 13.97% and .72%, respectively, for the six-month period ended June 30, 1992 compared to 10.25% and .49%, respectively, for the same period in 1991. The improvement in earnings is attributable to higher net interest income and other income partially offset by increased general and administrative expenses.

Net Interest Income

Net interest income for the three-month and six-month periods ended June 30, 1992 was $14.6 million and $28.0 million, compared to $9.1 million and $18.0 million for the same periods in 1991. The increase is attributable to an increase in average balances, reductions in core deposit rates, and an overall decline in interest rates. Sovereign's interest rate spread (the difference between the yield on total assets and the cost of total liabilities and stockholders' equity) increased to 3.11% for the six-month period ended June 30, 1992 from 2.73% for the same period in 1991. This increase in spread was caused by the downward repricing of liabilities occurring faster than the downward repricing of assets. Liabilities repriced downward as certificates of deposits matured and were then renewed at lower rates. Core deposit rates on passbooks, checking, and money market accounts were also reduced as a result of the overall decline in interest rates. The net interest margin also increased due to discounted adjustable rate loans adjusting to fully indexed rates.

Interest and fees on loans were $24.6 and $47.9 million for the three-month and six-month periods ended June 30, 1992 compared to $22.7 million and $46.5 million for the same periods in 1991. The average balance of loans was $1.13 billion with an average yield of 8.47% for the six-month period ended June 30, 1992 compared to an average balance of $899.0 million with an average yield of 10.40% for the same period in 1991. The increase in average balance is due primarily to the origination and purchase of adjustable rate mortgage

loans. The decline in the yield of the portfolio is due to the decrease in short-term rates, particularly the one year Treasury rate, plus the funding of new adjustable rate loans at discounted rates offset by the repricing of previously discounted adjustable rate loans to a fully indexed yield.

For the six-month period ended June 30, 1992, Sovereign originated approximately $416.7 million of first mortgage loans, an increase of 273% over the $111.6 million of first mortgage loans originated during the same period in 1991. Adjustable rate mortgage loan originations were $283.8 million for the six-month period ended June 30, 1992 compared to $48.5 million for the same period in 1991. The increase in originations was primarily due to the increased level of refinancing activity caused by the decline in mortgage rates and Sovereign's continuing emphasis on adjustable rate originations.

Interest on mortgage-backed securities was $9.7 million and $19.6 million for the three-month and six-month periods ended June 30, 1992 compared to $6.3 million and $12.4 million for the same periods in 1991. The average balance of mortgage-backed securities was $532.2 million with an average yield of 7.37% for the six-month period ended June 30, 1992 compared to an average balance of $288.6 million with an average yield of 8.63% for the same period in 1991. The increase in average balance was primarily due to the purchase of adjustable rate mortgage-backed securities.

Interest and dividends on investment securities and other interest-earning deposits was $1.6 million and $3.0 million for the three-month and six-month periods ended June 30, 1992 compared to $1.9 million and $3.7 million for the same periods in 1991. The average balance of investment securities and other interest-earning deposits was $82.0 million with an average yield of 7.40% for the six-month period ended June 30, 1992 compared to an average balance of $92.8 million with an average yield of 8.06% for the same period in 1991.

Interest on deposits was $15.8 million and $32.4 million for the three-month and six-month periods ended June 30, 1992 compared to $16.9 million and $33.2 million for the same periods in 1991. The average balance of deposits was $1.23 billion with an average cost of 5.30% for the six-month period ended June 30, 1992 compared to an average balance of $942.6 million with an average cost of 7.11% for the same period in 1991. The increase in average balance is primarily due to the assumption of approximately $323.3 million of deposits from the RTC in August and September of 1991.

Interest on borrowings was $5.5 million and $10.1 million for the three-month and six-month periods ended June 30, 1992 compared to $4.9 million and $11.5 million for the same periods in 1991. The average balance of borrowings was $447.6 million with an average cost of 4.53% for the six-month period ended June 30, 1992 compared to an average balance of $285.1 million with an average cost of 8.11% for the same period in 1991. Borrowings have increased as they have been used to fund growth in loans and mortgage-backed securities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Provision for Possible Loan Losses

The provision for possible loan losses was $2.5 million and $4.5 million for the three-month and six-month periods ended June 30, 1992 compared to $1.8 million and $3.8 million for the same periods in 1991. While Sovereign's loan quality remains well above industry averages, management continues to conservatively provide for possible loan losses given the uncertainty regarding a possible economic recovery.

The following table presents the activity in the allowance for possible loan losses for the periods indicated: (dollars in thousands)

	Six-Month Period Ended June 30, 1992	1991
Allowance, beginning of period	$ 9,532	$5,658
Charge-offs:		
Residential	378	444
Consumer	180	42
Commercial	1,500	-
Commercial Real Estate	60	-
Total charge-offs	2,118	486
Recoveries:		
Residential	41	-
Consumer	2	4
Commercial	3	9
Commercial Real Estate	4	-
Total Recoveries	50	13
Charge-offs, net of recoveries	(2,068)	(473)
Provision	4,460	3,765
Balance, end of period	$11,924	$8,950

The $1.5 million charge-off during the second quarter of 1992 represents the entire balance of one commercial loan which became uncollectible in the second quarter of 1992 and which had previously been identified as a potential problem loan and for which a specific reserve of $1.5 million had been established earlier during the second quarter of 1992.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Other Income

Other income was $1.6 million and $3.5 million for the three-month and six-month periods ended June 30, 1992 compared to $839,000 and $1.9 million for the same periods in 1991. This increase is the result of higher loan fees and service charges, deposit fees and gains from loans held for resale.

Loan fees and service charges were $923,000 for the six-month period ended June 30, 1992 compared to $708,000 for the same period in 1991. This increase was primarily the result of an increase in Sovereign's servicing portfolio. Sovereign serviced $1.15 billion of its own loans and $440.0 million of loans for others at June 30, 1992 compared to $740.2 million of its own loans and $390.6 million of loans for others at June 30, 1991.

Deposit fees were $801,000 for the six-month period ended June 30, 1992 compared to $498,000 for the same period in 1991. This increase was primarily the result of the assumption of $323.3 million of deposits from the RTC in August and September of 1991. These deposits have increased Sovereign's passbook, NOW and MMDA deposits, which typically generate greater fee income.

The gain on sale of loans and mortgage-backed securities held for resale was $1.1 million for the six-month period ended June 30, 1992 compared to a gain of $272,000 for the same period in 1991. This increase was the result of higher fixed rate originations primarily caused by increased refinancing activity. During the six-month period ended June 30, 1992, Sovereign sold $124.1 million of fixed rate originations compared to $44.6 million during the same period in 1991. Also included in the gains on sale of loans in 1992 is approximately $328,000 from the sale of approximately $25 million of loans acquired from the RTC. Sovereign acquired these loans in connection with the assumption of deposits in New Jersey from the RTC.

General and Administrative Expenses

Total general and administrative expenses were $6.9 million and $13.9 million for the three-month and six-month periods ended June 30, 1992 compared to $4.5 million and $9.1 million for the same periods in 1991. The higher expenses were primarily related to increased salaries and employee benefits, occupancy and equipment, and outside service expenses, all of which were related to the assumption of RTC deposits which included seven community banking offices. General and administrative expenses for the six-month period ended June 30, 1992 included approximately $800,000 of expenses related to the increase in refinancing activity and data processing system conversions, most of which should be non-recurring. The ratio of general and administrative expenses to average assets for the six-month period ended June 30, 1992 was 1.55% compared to 1.39% for the same period in 1991.

Other operating expenses were $313,000 and $684,000 for the three-month and six-month periods ended June 30, 1992 compared to $78,000 and $145,000 for the same periods in 1991. This increase was the result of the amortization of core deposit intangibles associated with the assumption of RTC deposits and due to increased real estate owned expenses which are the result of the recessionary economy.

Income Tax Provision

The income tax provision was $3.2 million and $5.9 million for the three-month and six-month periods ended June 30, 1992 compared to $1.8 million and $3.6 million for the same periods in 1991. The effective tax rate for the six-month period ended June 30, 1992 was 47.3% compared to 51.8% for the same period in 1991. The high effective tax rates were the result of large provisions for possible loan losses which were not fully tax deductible.

FINANCIAL CONDITION

Loan Portfolio

Loans at June 30, 1992 were $1.24 billion compared to $1.03 billion at December 31, 1991. This growth is the result of increased loan originations somewhat offset by higher prepayments. During the six-month period ended June 30, 1992, Sovereign closed approximately $416.7 million in mortgage loans including approximately $283.8 million of adjustable rate mortgage loans which were retained in Sovereign's loan portfolio.

Sovereign's primary loan products are adjustable rate mortgage loans on owner occupied residential real estate. As a result of Sovereign's focus on these products, 96.9% of Sovereign's total loan portfolio is secured by residential real estate and $1.08 billion or 86.4% of the total loan portfolio is comprised of adjustable rate loans. At June 30, 1992, Sovereign's total loan portfolio included $1.01 billion of first mortgage loans secured primarily by liens on owner occupied one-to-four family residential properties and $176.7 million of home equity lines of credit secured primarily by second mortgages on owner occupied one-to-four family residential properties. The remaining loan types in Sovereign's portfolio are gradually declining since new loans of these types are no longer emphasized. At June 30, 1992, Sovereign had no commercial construction loans and only $2.0 million in residential development loans. Sovereign discontinued new commercial and commercial real estate lending in 1989, and also sold $16.8 million of commercial real estate loans during the same year. For additional information on the composition of the loan portfolio at June 30, 1992 and December 31, 1991, see Note 5 in the Notes to Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table presents Sovereign's loan delinquencies at the dates indicated: (dollars in thousands)

	June 30, 1992	December 31, 1991
Residential		
Delinquent loans:		
31-59 days	$ 6,596	$ 9,269
60-89 days	1,748	1,070
90 days and over	5,307	5,814
Total	$13,651	$16,153
Residential delinquencies as a percentage of residential loans	1.31%	1.96%
Home equity lines of credit ("HELOC")		
Delinquent loans:		
31-59 days	$ 832	$ 1,202
60-89 days	78	216
90 days and over	918	988
Total	$ 1,828	$ 2,406
HELOC's delinquencies as a percentage of HELOC's	1.04%	1.35%
Other loans		
Delinquent loans:		
31-59 days	$ 285	$ 722
60-89 days	116	37
90 days and over	761	754
Total	$ 1,162	$ 1,513
Other loan delinquencies as a percentage of other loans	2.83%	3.16%
Total loans		
Delinquent loans:		
31-59 days	$ 7,713	$11,193
60-89 days	1,942	1,323
90 days and over	6,986	7,556
Total	$16,641	$20,072
Total loan delinquencies as a percentage of total loans	1.32%	1.91%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Sovereign places all loans 90 days or more delinquent (except guaranteed student loans) on non-performing status. At June 30, 1992, Sovereign's non-performing assets were $11.1 million compared to $11.3 million at December 31, 1991. The ratio of non-performing assets to total assets was .60% at June 30, 1992 compared to .68% at December 31, 1991.

At June 30, 1992, 80.3% of non-performing assets consisted of loans or real estate owned (REO) related to one-to-four family residential real estate compared to 83.4% at December 31, 1991. Historically, losses on disposition of non-performing residential real estate have been much lower than non-performing commercial and commercial real estate loans. Non-performing assets at June 30, 1992 include $4.4 million of REO which is carried at lower of cost or estimated fair market value.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table presents the composition of non-performing assets at the dates indicated: (dollars in thousands)

	June 30, 1992	December 31, 1991
Non-Accrual Loans:		
Past due 90 or more days as to interest or principal:		
1-4 Family Residential	$ 6,154	$ 6,702
Other	509	624
Past due less than 90 days as to interest or principal:		
1-4 Family Residential	-	-
Other	-	81
Total Non-Accrual Loans	6,663	7,407
Restructured Loans	30	30
Total Non-Performing Loans	6,693	7,437
Real Estate Owned:		
1-4 Family Residential	2,722	2,761
Other	1,640	1,148
Total Real Estate Owned	4,362	3,909
TOTAL NON-PERFORMING ASSETS	11,055	11,346
Past due 90 days or more as to interest or principal and accruing interest	52	130
Non-performing Assets and Loans past due 90 days or more and still accruing	$11,107	$11,476
Non-Performing Assets as a percentage of Total Assets	.60%	.68%
Non-Performing Loans as a percentage of Total Loans	.54%	.72%
Allowance for Possible Loan Losses as a percentage of Total Non-Performing Assets	105.42%	81.81%
Allowance for Possible Loan Losses as a percentage of Total Non-Performing Loans	174.12%	124.81%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Management constantly evaluates the adequacy of its allowance for possible loan losses. Management's evaluation of the adequacy of the allowance to absorb potential future loan losses takes into consideration the risks inherent in the loan portfolio, past loan loss experience, specific loans which could have loss potential, geographic and industry concentrations, delinquency trends, economic conditions and other relevant factors. At June 30, 1992, the allowance for possible loan losses was $11.9 million or .96% of loans compared to $9.5 million or .93% of loans at December 31, 1991.

The following table presents the allocation of the allowance for possible loan losses and the percentage of such allocation to each loan type for the dates indicated: (dollars in thousands)

Balance at end of Period Attributable to	June 30, 1992 Amount	Percent	December 31, 1991 Amount	Percent
Residential real estate	$ 2,670	22.39%	$2,280	23.92%
Commercial real estate	733	6.15	777	8.15
Commercial	264	2.21	225	2.36
Consumer	555	4.66	595	6.24
Unallocated	7,702	64.59	5,655	59.33
Total	$11,924	100.00%	$9,532	100.00%

Potential problem loans (consisting of loans as to which management has serious doubts as to the ability of such borrowers to comply with present repayment terms, although not currently classified as non-performing loans) amounted to approximately $2.5 million at June 30, 1992. All of these are commercial loans.

Mortgage-backed Securities

Mortgage-backed securities consist of obligations issued by FHLMC, FNMA or private issuers. Sovereign's mortgage-backed securities are generally either guaranteed as to principal and interest by the issuer or rated "AAA" or "AA" by Standard and Poor's or Moody's. At June 30, 1992, total mortgage-backed securities were $465.1 million compared to $477.1 million at December 31, 1991. For additional information on the mortgage-backed securities at June 30, 1992 and December 31, 1991, see Note 4 in the Notes to Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Investment Securities

Investment securities consist primarily of U.S. Treasury and U.S. government agency securities, corporate debt securities and stock in the Federal Home Loan Bank of Pittsburgh ("FHLB"). At June 30, 1992, total investment securities were $58.1 million compared to $47.4 million at December 31, 1991. This increase was due to the purchase of U.S. Agency securities for the liquidity portfolio coupled with the sale of certain corporate securities. For additional information on the investment securities at June 30, 1992 and December 31, 1991, see Note 3 in the Notes to Consolidated Financial Statements.

Sovereign has the ability to hold its mortgage-backed and investment securities to maturity, and it is management's intent to hold these securities to maturity and redeem them at par value. Nevertheless, the level and composition of mortgage-backed and investment securities may change due to purchases, maturities and unforseen liquidity requirements. The decision to purchase mortgage-backed and investment securities is based upon management's current assessment of economic conditions, financial markets, regulatory requirements, and tax legislation. The sale of securities is not, and has not been significantly influenced by unrealized appreciation or depreciation in the investment portfolio.

Deposits

Deposits are attracted from within Sovereign's primary market area through the offering of various deposit instruments including NOW accounts, money market accounts, regular savings accounts, certificate accounts and retirement savings plans.

Total deposits at June 30, 1992 were $1.23 billion compared to $1.26 billion at December 31, 1991. The decrease in deposits is the result of the low interest rates offered on certificates of deposit when compared to other investment alternatives as well as management's desire to use lower cost borrowings to fund asset growth. For additional information on the deposit portfolio composition at June 30, 1992 and December 31, 1991, see Note 6 in the Notes to Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Borrowings

Sovereign utilizes borrowings as a source of funds for its asset growth. Collateralized advances are available from the FHLB provided certain standards related to creditworthiness have been met. Another source of funds for Sovereign is "reverse repurchase agreements." Reverse repurchase agreements are short-term obligations collateralized by a security interest in United States government securities or securities fully guaranteed as to principal and interest by the United States or an agency thereof.

Total borrowings at June 30, 1992 were $489.2 million of which $441.6 million were short-term compared to $279.3 million of which $271.0 million were short-term at December 31, 1991. Borrowings have increased as they have been used to fund growth in loans and mortgage-backed securities. For additional information on the borrowings at June 30, 1992 and December 31, 1991, see Note 7 in the Notes to Consolidated Financial Statements.

Stockholders Equity

Total stockholders' equity at June 30, 1992 was $96.1 million compared to $90.1 million at December 31, 1991. This increase is attributable to the retention of earnings and the sale of Treasury stock less dividends paid to shareholders.

ASSET AND LIABILITY MANAGEMENT

The one year gap is the most common measure of interest rate risk and is the ratio representing the difference between assets and liabilities which will mature or reprice within one year expressed as a percentage of total assets. Sovereign estimates that its cumulative one year gap to total assets was 10.30% at June 30, 1992 compared to 15.22% at December 31, 1991.

Pursuant to its interest rate risk management strategy, Sovereign has been emphasizing the purchase and origination of adjustable rate assets. At June 30, 1992, 62% of Sovereign's assets reprice or mature in one year or less. Furthermore, Sovereign varies the indices to which its adjustable rate loans reprice. While a majority of Sovereign's loans historically repriced to the one year constant maturity Treasury index, a significant number now reprice to indices such as the Prime rate and the 11th District Cost of Funds rate. At June 30, 1992, 69% of Sovereign's adjustable rate mortgage loans and mortgage-backed securities reprice to the Treasury index while 31% of these loans and securities reprice to other indices.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

LIQUIDITY AND CAPITAL RESOURCES

Sovereign Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in cash and United States government and other qualifying investments. Regulations currently in effect require Sovereign Bank to maintain liquid assets of not less than 5% of its net withdrawable accounts plus short-term borrowings, of which short-term liquid assets must consist of not less than 1%. These levels are changed from time to time by the Office of Thrift Supervision ("OTS") to reflect economic conditions. Sovereign Bank's liquidity ratio was 5.82% for June 30, 1992.

Sovereign's primary financing sources are deposits obtained in its own market area, borrowings in the form of securities sold under repurchase agreements and advances from the FHLB. At June 30, 1992, Sovereign had $228.0 million in unpledged investments and mortgage-backed securities which could be used to collateralize additional borrowings including short-term borrowings. Sovereign Bank can also borrow up to 25% of total assets from the FHLB, subject to required collateralization. Other sources of funds include operating activities, repayments of principal on mortgage-backed and other securities, repayment of principal on loans, and other investing activities.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), among other things, requires the OTS to prescribe uniformly applicable capital standards for all savings associations. These standards currently require institutions to maintain a minimum tangible capital ratio of not less than 1.5%, a minimum leverage capital ratio of not less than 3% and a minimum risk-based capital ratio (based upon credit risk) of not less than 7.2% (8% at December 31, 1992 when fully phased-in). In all cases these standards are to be no less stringent than the capital standards that are applicable to national banks. The OTS has issued a proposed regulation that would require a minimum leverage capital requirement of 3% for associations rated composite 1 under the OTS MACRO rating system. For all other savings associations, the minimum leverage capital requirement will be 3% plus at least an additional 100 to 200 basis points.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Sovereign Bank is in compliance with all fully phased-in current capital requirements and management anticipates compliance with any new capital requirements. The following table sets forth the capital ratios of Sovereign Bancorp on a consolidated basis and Sovereign Bank and the current regulatory requirements at June 30, 1992:

	Sovereign Bancorp(1)	Sovereign Bank	Requirement
Stockholders' equity to total assets	5.19%	4.53%	None
Tangible capital to tangible assets	4.85	4.18	1.50%
Leverage (core) capital to tangible assets	4.85	4.18	3.00
Risk-based capital to risk adjusted assets	10.73	9.38	7.20

(1) OTS capital regulations do not apply to savings and loan holding companies. These ratios are computed as if those regulations did apply to Sovereign Bancorp.

PART II – OTHER INFORMATION

Items 1 through 4 are not applicable or the responses are negative.

Item 5(a) SUBORDINATED DEBENTURES

On or about August 11, 1992 Sovereign expects to file a Form S-2 with the Securities and Exchange Commission relating to an underwritten offering of $30 million of subordinated ten year debentures (the "Debentures").

Item 5(b) PENDING ACQUISITIONS

Set forth below is information with respect to certain pending transactions involving Sovereign. The information constitutes a summary only and is qualified in its entirety by reference to the detailed information with respect to each transaction set forth in this Form 10-Q and the exhibits hereto and other documents filed under the Securities Exchange Act of 1934.

Harmonia

On July 1, 1992, Sovereign entered into an agreement with Harmonia Bancorp, Inc. ("Harmonia") and its principal banking subsidiary, Harmonia Savings Bank. This Agreement was orally amended as of July 21, 1992, subject to certain conditions, including Harmonia's completion of its due diligence review of Sovereign's proposed acquisition of Jersey Shore Savings and Loan Association ("Jersey Shore"). Headquartered in Kenilworth, New Jersey, Harmonia has 17 community banking offices located throughout central New Jersey in Union, Middlesex, Monmouth, Ocean and Mercer Counties. At June 30, 1992 Harmonia had total assets, deposits and stockholders' equity of approximately $811.0 million, $715.0 million and $88.0 million, respectively.

Under the agreement, as amended, if the Market Value of Sovereign common stock (defined as the average of the closing sale prices as reported by NASDAQ) during the pricing period (the 10 consecutive trading days commencing 12 trading days before the closing date) is between $7.27 and $12.73 per share, Sovereign will pay a fixed $20.00 for each share of Harmonia common stock ($17.50 in value of Sovereign common stock and $2.50 in cash). However, if the Market Value during the pricing period increases above $12.73 per share, 1.375 shares of Sovereign common stock plus $2.50 per share in cash will be exchanged for each share of Harmonia stock outstanding. Moreover, if the closing does not occur by March 31, 1993, an additional $.25 per share is payable for each month of delay thereafter under certain circumstances. The stock/cash ratio is subject to change at Sovereign's election prior to closing, provided the cash consideration is at least $2.50 per share.

The closing date will be designated by Sovereign within the 30-day period following the first day on which the merger could occur, which is expected during the first quarter of 1993. The closing is subject to the satisfaction of certain conditions, including, among others, approval of the merger by Sovereign's shareholders and Harmonia's shareholders, the receipt of all required regulatory approvals, the receipt of fairness opinions by both Sovereign and Harmonia, the exercise by the holders of not more than 7½% of Harmonia's shares outstanding of dissenter's rights under applicable Delaware law, and the absence of any material adverse change, including in the case of Sovereign, any material adverse change resulting from its planned acquisition of Jersey Shore (see below). The parties each have a right to terminate the agreement on or after June 30, 1993, or if the Market Value of Sovereign's common stock is less than $7.27 or greater than $18.18 per share. The transaction will be accounted for as a purchase and is intended to be tax-free to Sovereign and Harmonia and to Harmonia shareholders to the extent they receive Sovereign common stock. If the transaction had been completed on June 30, 1992 at the $20.00 per share fixed acquisition price ($17.50 in Sovereign common stock and $2.50 in cash) the transaction would have had a total purchase price of approximately $87.2 million, of which at least $20 million would have been in cash. Sovereign will not be required to incur additional debt nor use the proceeds from this offering to finance the cash portion of the purchase price.

Jersey Shore

On July 28, 1992, Sovereign entered into an agreement with Jersey Shore, headquartered in Toms River, New Jersey, in an OTS facilitated transaction providing for Jersey Shore to convert from mutual to stock form, sell its stock to Sovereign and then merge with the Bank. Jersey Shore has 14 branch offices in Monmouth and Ocean Counties, New Jersey. At June 30, 1992, Jersey Shore had total assets, deposits and equity of $605.3 million, $476.3 million and $19.5 million, respectively. The transaction will be accounted for as a purchase and is expected to close in the third quarter of 1992. Sovereign's obligations under the agreement are subject to a number of conditions, including no material adverse change in Jersey Shore's financial condition or the results of its operations, Sovereign and Jersey Shore obtaining certain regulatory approvals, and purchase accounting treatment resulting in an increase of no more than $12 million in intangible assets on Sovereign's books resulting from the Jersey Shore transaction. Pursuant to this transaction, Sovereign Bank will acquire Jersey Shore's assets in exchange for assuming its liabilities (principally deposits and FHLB borrowings). At June 30, 1992, it is estimated that the fair value of Jersey Shore's liabilities exceeded the fair value of its assets (including an estimated $4.7 million core deposit intangible asset) by approximately $3.3 million (goodwill). OTS is facilitating the acquisition of Jersey Shore on these terms and conditions because Jersey Shore, despite having almost $20 million of equity in accordance with generally accepted accounting principles, is not currently in compliance with its regulatory capital requirements. Jersey Shore has been profitable for the last ten years, but in 1982 Jersey Shore, with supervisory assistance, acquired another thrift institution which created approximately $39 million of supervisory goodwill of which approximately $20 million remained at June 30, 1992. Supervisory goodwill no longer fully qualifies for regulatory capital pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended.

Item 5(c) PRO FORMA SUMMARY FINANCIAL DATA

The following tables set forth selected unaudited pro forma financial data reflecting the proposed acquisitions of Harmonia and Jersey Shore (each of which will be accounted for using the purchase method of accounting), the repayment of all of Jersey Shore's FHLB advances, the repayment of the outstanding Harmonia Employee Stock Ownership Plan ("ESOP") debt and the sale of Jersey Shore's single family residential nonperforming loans (collectively, the "Transactions"). The following tables also give effect to the issuance of the Debentures and the application of the proceeds therefrom.

Pro forma end of period balances for June 30, 1992 were prepared assuming the Transactions had occurred on such date. The pro forma consolidated information related to earnings for the six-month period ended June 30, 1992 and the year ended December 31, 1991 gives effect to the Transactions as if they had occurred on January 1, 1992 and January 1, 1991, respectively, with pro forma adjustments based on estimated market values as of June 30, 1992. The pro forma consolidated information related to earnings for the year ended December 31, 1991 reflects the earnings of Jersey Shore for its fiscal year ended March 31, 1992. This information is provided for illustrative purposes only and is based on, and should be read in conjunction with, the notes to such pro forma statements and the historical financial statements, including related notes, included elsewhere herein, and is not necessarily indicative of the results of operations or financial position which would have resulted had the Transactions occurred on such dates or of future results of operations or financial position. No assurance can be given that the Transactions will be consummated on the terms and conditions described therein or with the estimated market values and pro forma purchase price adjustments set forth in the following tables.

The pro forma information has been prepared based upon the $20.00 per share fixed acquisition price for Harmonia ($17.50 in Sovereign common stock and $2.50 in cash) at June 30, 1992. The $20.00 per share price is subject to increase under certain circumstances and the mix of stock and cash is subject to change at Sovereign's election, as more fully discussed under "Pending Acquisitions." Sovereign does not presently intend to change the cash/stock mix. The pro forma information has been prepared assuming that, in accordance with the agreement between Harmonia and Sovereign, unallocated shares of Harmonia common stock held in the Harmonia ESOP and all nonvested shares held in the Harmonia Management Recognition and Retention Plans ("MRP") are exchanged for $20.00 in cash per share. The pro forma information has also been prepared assuming that incentive stock

options to purchase 475,000 shares of Harmonia common stock are cancelled in exchange for $10.00 in cash per share, as required by the agreement. Pursuant to the agreement, it is anticipated that the debt related to the Harmonia ESOP will be repaid with the cash received by the ESOP in exchange for its unallocated shares of Harmonia common stock. In addition, the agreement provides for cash payments in satisfaction of certain Harmonia employment agreement obligations.

Sovereign expects to achieve certain operating cost savings through the consolidation of certain back office and support functions, possible consolidations of community bank offices and through the elimination of redundant costs. Sovereign expects that operating cost savings will be achieved in various amounts at various times and not ratably over or at the beginning of any specific period. Therefore, there can be no certainty of the amount or timing of any operating cost savings which may be realized. The pro forma financial information does not reflect any of these anticipated operating cost savings.

PRO FORMA UNAUDITED BALANCE SHEET

JUNE 30, 1992

(In thousands)

	Sovereign	Sovereign Adjustments	Harmonia	Harmonia Adjustments	Jersey Shore	Jersey Shore Adjustments	Sovereign Combined
Cash and amounts due from depository institutions	$ 20,708		$ 13,051	$(25,769)(2)	$ 11,734	$ 14,117(9)(10)	$ 33,842
Interest-earning deposits and federal funds sold	21,597	$30,000(1)	11,700		31,656		94,953
Loans and mortgage-backed securities held for resale	11,321				28,202		39,523
Investment and mortgage-backed securities	523,244		401,867	1,482 (3)	230,916	(79,515)(3)(11)	1,077,994 2,915,776
Loans	1,244,375		364,942	(4,290)(3)	256,829	(24,074)(3)(9)	1,837,782
Allowance for possible loan losses	(11,924)		(3,118)		(2,979)		(18,021)
Premises and equipment	13,497		6,808	1,613(4)	4,221	2,000(4)	28,199
Goodwill and other intangible assets	6,569		628	5,123(5)	19,599	(11,516)(5)	20,403
Other assets	23,282		15,110		25,151	(462)(12)	63,081
TOTAL ASSETS	$1,852,669	$30,000	$811,048	$(21,841)	$605,329	$(99,450)	$3,177,755
Deposits	$1,230,713		$714,991	$ 673(6)	$476,330	$ 1,500(6)	$2,424,207
Short-term borrowings	441,596				61,500	(61,500)(11)	441,596
Long-term borrowings	47,649	$30,000(1)	1,735	(1,735)(7)	20,000	(20,000)(11)	77,649
Other liabilities	36,579		6,325		28,048		70,952
TOTAL LIABILITIES	$1,756,537	$30,000	$723,051	$ (1,062)	$585,878	$(80,000)	$3,014,404
Common stock	$ 79,027		$ 41,666	$ 25,553(8)			$ 146,246
Retained earnings	17,269		51,194	(51,194)(8)	$ 19,451	$(19,451)(13)	17,269
Treasury stock	(164)		(4,863)	4,863(8)			(164)
TOTAL STOCKHOLDERS' EQUITY	96,132		87,997	(20,778)	19,451	(19,451)	163,351
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,852,669	$30,000	$811,048	$(21,840)	$605,329	$(99,451)	$3,177,755

See accompanying notes.

Notes To Pro Forma Unaudited Balance Sheet
(In thousands, except share data)

(1) The issuance of Debentures contemplated by this offering before expenses of issuance.

(2) Total of all cash payments related to the acquisition of Harmonia, allocated as follows:

Cash portion of purchase price	$ 9,603
Cash exchanged for ESOP shares	3,760
Cash exchanged for MRP shares	1,900
Cash exchanged for incentive stock options	4,750
Cash payments for employment agreements, net of applicable income tax effect	4,766
Estimated closing costs	990
Total	$25,769

See "Pending Acquisitions" for a discussion of the cash portion of the purchase price.

(3) Valuation adjustments based upon yield and maturity as compared to similar investments and loans, net of applicable income tax effects.

(4) Valuation adjustments to furniture, fixtures and equipment, net of applicable income tax effects. Based upon estimated market values which are subject to adjustment upon final determination of value.

(5) Elimination of existing goodwill/resulting new goodwill and core deposit intangibles, net of applicable income tax effect.

(6) Valuation adjustments based upon rate and maturity as compared to alternative sources of funds, net of applicable income tax effects.

(7) Elimination of ESOP debt.

(8) Issuance of $17.50 in value of Sovereign common stock in exchange for each of 3,841,000 shares of Harmonia common stock (4,124,000 shares of Harmonia common stock currently outstanding less 283,000 shares related to Harmonia's ESOP and MRP) and elimination of Harmonia's existing capital.

(9) Sale of $20,774 of Jersey Shore's single family residential nonperforming loans for net proceeds of $15,701. Sovereign has received indications of interest for the purchase of these loans at price levels at or above this amount, but no agreements for the sale have been entered into.

(10) Penalty related to the prepayment of Jersey Shore's Federal Home Loan Bank ("FHLB") advances, net of applicable income tax effect.

(11) Repayment of Jersey Shore's FHLB advances and sale of mortgage-backed securities.

(12) Valuation adjustment for Jersey Shore's loan servicing assets, net of applicable income tax effects.

(13) Elimination of Jersey Shore's existing equity.

PRO FORMA UNAUDITED INCOME STATEMENT

SIX MONTHS ENDED JUNE 30, 1992

(In thousands, except per share data)

	Sovereign	Sovereign Adjustments	Harmonia	Harmonia Adjustments	Jersey Shore	Jersey Shore Adjustments	Sovereign Combined
Interest income	$70,545	$1,001 (A)	$27,792	$ (835)(D)(E)	$21,655	$(2,439)(E)(I)(L)	$117,719
Interest expense	42,538	1,275 (B)	15,179	(128)(F)(G)	16,264	(2,652)(G)(J)	72,476
Net interest income	28,007	(275)	12,613	(707)	5,391	213	45,243
Provision for possible loan losses	4,460		1,179		265		5,904
Net interest income after provision for possible loan losses	23,547	(275)	11,434	(707)	5,126	213	39,339
Gain on sale of loans, investment securities and mortgaged-backed securities	275		86		474		835
Gain on sale of loans and mortgage-backed securities held for resale	1,096				1,502		2,598
Non-interest income	2,158		983		2,046		5,187
Non-interest expense	14,610		8,898	397 (H)(K)	7,320	(119)(H)(K)(M)	31,106
Income before taxes	12,466	(275)	3,605	(1,104)	1,828	332	16,853
Income taxes	5,900	(104)(C)	1,680	(196)(C)	816	(26)(C)	8,070
Net income	$ 6,566	$ (170)	$ 1,925	$ (908)	$ 1,012	$ 358	$ 8,783
Earnings per share	$ .54						$ .50
Average shares outstanding	12,334						17,701

See accompanying notes.

PRO FORMA UNAUDITED INCOME STATEMENT

YEAR ENDED DECEMBER 31, 1991

(In thousands, except per share data)

	Sovereign	Sovereign Adjustments	Harmonia	Harmonia Adjustments	Jersey Shore	Jersey Shore Adjustments	Sovereign Combined
Interest income	$128,083	$2,001 (A)	$59,964	$(1,670)(D)(E)	$47,999	$(6,492)(E)(I)(L)	$229,884
Interest expense	89,565	2,550 (B)	37,583	(321)(F)(G)	38,315	(7,179)(G)(J)	160,513
Net interest income	38,518	(549)	22,381	(1,350)	9,684	687	69,371
Provision for possible loan losses	6,007	____	2,343	____	1,770	____	10,120
Net interest income after provision for possible loan losses	32,511	(549)	20,038	(1,350)	7,914	687	59,251
Gain on sale of loans, investment securities and mortgaged-backed securities	(478)		305				(173)
Gain on sale of loans and mortgage-backed securities held for resale	854				4,904		5,758
Non-interest income	3,370		2,235		4,771		10,376
Non-interest expense	21,205	____	16,972	794 (H)(K)	14,756	(238)(H)(K)(M)	53,489
Income before taxes	15,052	(549)	5,606	(2,144)	2,833	925	21,723
Income taxes	7,247	(209)(C)	2,868	(392)(C)	1,241	47 (C)	10,803
Net income	$ 7,805	$ (340)	$ 2,738	$(1,752)	$ 1,592	$ 878	$ 10,920
Earnings per share	$ .84						$ .74
Average shares outstanding	9,333						14,710

See accompanying notes.

Notes To Pro Forma Unaudited Income Statements
(In thousands, except share data)

(A) Interest income from the investment of the proceeds from the issuance of the Debentures.

(B) Interest expense related to the issuance of the Debentures at a rate assumed to be 8.5%. The amount of interest expense will increase or decrease $72.5 for the year ended December 31, 1991, and $36.3 for the six months ended June 30, 1992, for each .25% change in such rate.

(C) Sovereign: Decrease in tax expense related to the reduction in net interest income. See notes (A) and (B).

Harmonia: Decrease in tax expense related to the reduction in net interest income. See note (D).

Jersey Shore: Increase/decrease in tax expense related to the increase/decrease in net interest income. See notes (I)(J)(L).

(D) Reduction of interest income related to the payment of $25,769 of cash for the Harmonia acquisition.

(E) Amortization of market value adjustments on investments, mortgage-backed securities and loans.

(F) Elimination of interest expense related to Harmonia's ESOP debt.

(G) Amortization of market value adjustments on certificates of deposit.

(H) Elimination of old goodwill amortization/addition of new goodwill and core deposit amortization.

(I) Interest income from the investment of additional cash (principally proceeds from the sale of nonperforming loans net of prepayment penalty applicable to FHLB advances).

(J) Reduction of interest expense resulting from the prepayment of Jersey Shore's FHLB advances.

(K) Amortization of market value adjustments on furniture, fixtures and equipment based on estimated market values which are subject to adjustment based on receipt of appraisals.

(L) Reduction of interest income resulting from the sale of mortgage-backed securities.

(M) Amortization of market value adjustments on Jersey Shore's loan servicing assets.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits – 1. Agreement and Plan of Merger dated July 29, 1992, by and among Sovereign Bank, FSB, Sovereign Bancorp, Inc. and Jersey Shore Savings and Loan Association.

(b) Reports on Form 8-K

Report on Form 8-K dated June 11, 1992, described the signing of a letter of intent (the "Letter") between Sovereign and Harmonia. The Letter provided for the exchange of Sovereign common stock and cash for Harmonia common stock, and the merger of Harmonia into and with Sovereign, subject to certain consitions.

Report on Form 8-K, dated July 1, 1992, described the signing of a definitive merger agreement (the "Agreement") between Sovereign and Harmonia. The Agreement provides for the exchange of Sovereign common stock and cash for Harmonia common stock, and the merger of Harmonia into and with Sovereign, subject to certain conditions.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOVEREIGN BANCORP, INC.
(Registrant)

Date August 11, 1992

/s/Karl D. Gerhart
Karl D. Gerhart
Chief Financial Officer

Date August 11, 1992

/s/Richard A. Elko
Richard A. Elko
Chief Accounting Officer